IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO | DIVISION OF FINANCIAL MANAGEMENT | MARCH 2008 VOLUME XXX NO. 9

The if and when of the national slowdown has already been answered, but other questions remain. Only time (and the National Bureau of Economic Research) will tell whether the current slowdown is mild or evolves into a full-blown recession. Another question is how will each state perform over the next few months? We devoted last month's *Outlook* to the Division of Financial Management's take on how Idaho's economy and its general fund revenues are expected to fare during the national slowdown. This month, with the help of Global Insight, Inc., we shift our focus to how other states are expected to perform as the economy shifts into lower gear.

Global Insight, Inc. believes the economy is in the midst of a mild recession. Huge inventories of unsold new homes and existing homes for sale suggest residential construction has yet to hit bottom. It predicts there will be fewer than one million housing starts in 2008—the lowest level since World War II. Unfortunately, housing problems have had a chilling effect on available credit, which spreads risks to other sectors of the economy. The economic performance for each state largely depends on how exposed each is to the current home-building retreat.

Almost one-half of the slowdown in U.S. economic growth in the latter half of 2007 was caused by the sharp slowing of four state economies with strong ties to the housing industry. They are Arizona, California, Florida, and Nevada. In recent years, both the Silver and Copper states have been among the nation's top job gainers, with Nevada claiming the top spot in 2004 and 2005 and Arizona placing second. However, their rankings are expected to slip. From 2006 to 2008, the Copper State's employment growth ranking falls to eighth place. The Silver State's expected decline is even more precipitous, dropping all the way to 28th place. California's job growth is ranked 38th over this same period, down from 20th place in 2005. Florida's ranking falls from third in 2005 to 24th place.

Interestingly, most Mountain States are expected to continue to hold their own during the next couple of years. Utah is the nation's job-growth champion during the 2006-2008 period. Wyoming is expected to enjoy the nation's third fastest employment growth. Montana places fifth and Idaho ranks sixth. One exception is New Mexico, which drops six places from 2005.

Global Insight believes that the economy should recover after the first half of this year. As a result, the job growth rankings will be reshuffled. Arizona moves to the top of the list during the 2008-2010 period, with Nevada in second place. Florida is ranked third and Utah is fourth. Idaho slips out of the top ten, placing 11th among the states. Wyoming freefalls from third place down to 49th place.

State Job Growth Ranking

	2006 to 2008	2008 to 2010
Alabama	23	33
Alaska	31	30
Arizona	8	1
Arkansas	42	27
California	38	23
Colorado	9	16
Connecticut	29	46
Delaware	36	32
Florida	24	3
Georgia	14	7
Hawaii	15	17
Idaho	6	11
Illinois	39	40
Indiana	48	47
Iowa	27	28
Kansas	12	26
Kentucky	41	20
Louisiana	2	10
Maine	47	39
Maryland	25	31
Massachusetts	34	44
Michigan	50	48
Minnesota	46	22
Mississippi	21	21
Missouri	43	38
Montana	5	14
Nebraska	19	29
Nevada	28	2
New Hampshire	26	24
New Jersey	44	43
New Mexico	20	13
New York	33	41
N. Carolina	10	9
N. Dakota	13	34
Ohio	49	50
Oklahoma	16	19
Oregon	22	5
Pennsylvania	37	45
Rhode Island	30	35
S. Carolina	17	8
S. Dakota	11	25
Tennessee	32	15
Texas	4	6
Utah	1	4
Vermont	45	37
Virginia	18	18
Washington	7	12
West Virginia	40	36
Wisconsin	35	42
Wyoming	3	49

Source: Global Insight, Inc.

C.L. "BUTCH" OTTER, Governor

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General Fund Update

As of February 29, 2008

	$ Millions		
Revenue Source	FY 2008 Executive Estimate[3]	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,378.9	817.0	798.2
Corporate Income Tax	169.4	86.5	86.8
Sales Tax	1,166.0	795.9	791.7
Product Taxes[1]	26.8	18.5	18.4
Miscellaneous	120.9	60.1	69.1
TOTAL GENERAL FUND[2]	**2,862.0**	**1,778.1**	**1,764.3**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of February 2008

General Fund revenue was $7.9 million lower than expected in February, and now stands $13.8 million below the amount predicted for the fiscal year to date. These results are based on the updated General Fund revenue forecast that was produced in February 2008. February's shortfall was due to a combination of weakness in the individual income tax and the sales tax. Those two areas of weakness were partially offset by modest gains in the corporate income tax and the miscellaneous revenue category.

Individual income tax revenue was $6.7 million lower than expected in February. Filing collections were $2.1 million higher than expected, withholding collections were $1.6 million lower, and refunds were $6.5 million higher than expected. This brings the fiscal year-to-date shortfall to $18.8 million. This is due almost entirely to refunds that are $18.4 million higher than expected for this point in the fiscal year. In essence, this reflects the continued acceleration of refund processing into the early months of income tax filing season. Fiscal year-to-date filing collections (low by $2.6 million) and withholding collections (ahead by $2.6 million) exactly offset each other.

Corporate income tax revenue was $1.4 million ahead of expectations in February and now stands $0.4 million ahead on a fiscal year-to-date basis.

Sales tax revenue was $4.6 million lower than expected in February, and now stands $4.2 million below the fiscal year-to-date predicted amount. February is the first month of FY 2008 that has significantly underperformed expectations (based on the current, downward revised revenue forecast). Gross collections were expected to grow at a modest 1.7% year-over-year rate in February, but instead fell by 4%. February sales tax collections are a function of January retail transactions. A major contributing factor behind this weakness appears to be in the motor vehicle sector, with February tax receipts from vehicle sales down 9.6% on a year-over-year basis. Two other factors that are likely contributors to February's weakness are the housing correction (fewer housing sales mean less in taxable construction materials, furnishings, landscaping, etc.) and the heightened anxiety about the possibility of a U.S. recession that arose in late 2007 and intensified in early 2008. A caution is in order, as one weak month does not make a trend. The February 2008 revised sales tax forecast contemplates a mere 0.8% growth rate in normalized sales tax receipts in FY 2008. Actual year-to-date growth through February is 0.6%.

Product taxes were slightly below target in February and remain $0.1 million lower than expected on a year-to-date basis. Miscellaneous revenues were $2.0 million higher than expected due primarily to larger-than-expected insurance premium tax, interest earnings, unclaimed property receipts, and an agency transfer from the Attorney General. On a fiscal year-to-date basis miscellaneous revenue is now $9.0 million ahead of expectations with well over half ($5.1 million) due to unclaimed property receipts.